

Message Text

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ACTION EB-04

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INR-01 FRB-03 CIAE-00 /021 W

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R 101801Z FEB 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5529

DEPARTMENT TREASURY

INFO AMEMBASSY LISBON

C O N F I D E N T I A L SECTION 01 OF 02 BONN 02581

LIMDIS-GREENBACK

E.O. 11652: GDS

TAGS: EFIN, EAID, PO, GW

SUBJECT: MEDIUM-TERM CREDIT FOR PORTUGAL

1. U.S. OFFICIALS MET WITH GERMAN FINANCE MINISTRY OFFICIALS FEBRUARY 10 TO EXPLORE POSSIBILITIES FOR ARRANGING A MEDIUM-TERM CREDIT FOR PORTUGAL. FINANCE MINISTRY ASSISTANT SECRETARY WEBER EXPLAINED THAT GERMAN POLITICAL DECISION ON FINANCIAL ASSISTANCE TO PORTUGAL HAD NOT YET BEEN MADE. IF SUCH A DECISION WERE MADE, THE ONLY WAY HE SAW AT THE MOMENT TO FINANCE GERMAN PARTICIPATION WAS THROUGH PARLIAMENTARY ACTION IN THE FORM OF APPROPRIATIONS FOR DIRECT CREDITS OR AUTHORITY FOR GUARANTEES. IT IS CLEAR FROM THIS DISCUSSION THAT GERMAN PARTICIPATION IS DEPENDENT ON A DECISION BY CHANCELLOR SCHMIDT WHICH WILL PROBABLY REQUIRE US PRESIDENTIAL INTERVENTION.

2. TREASURY OFFICIALS, NANCY JACKLIN, DONALD SYVRUD, ECONOMIC COUNSELOR EMBASSY LISBON FERRER AND TREASURY ATTACHE HERMBERG MET FEBRUARY 10 WITH
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DR. WEBER, ASSISTANT SECRETARY FOR MONETARY AFFAIRS, AND FRAU DR. FUENFGELT, OFFICE DIRECTOR FOR INTERNATIONAL MONETARY AFFAIRS OF THE GERMAN MINISTRY OF FINANCE, TO EXPLORE POSSIBILITIES OF ARRANGING A MEDIUM-TERM CREDIT FOR PORTUGAL.

3. DR. WEBER APPEARED TO HAVE A THOROUGH UNDERSTANDING

OF THE PORTUGUESE ECONOMIC SITUATION AND FINANCIAL NEEDS. HE EXPRESSED CONSIDERABLE INTEREST IN THE DETAILS OF THE US PROGRAM NOTING THAT THE EUROPEANS HAD GIVEN SUBSTANTIAL SHORT-TERM CREDITS TO PORTUGAL, SPECIFICALLY THE \$1.2 BILLION OF GOLD COLLATERAL LOANS FROM THE BIS AND EUROPEAN CENTRAL BANKS SINCE MAY 1975. HE CITED SPECIFICALLY THE REPORT OF THIS WEEK'S BIS MEETING WHICH INDICATED THAT \$400 MILLION OF FINANCING WAS BEING MADE AVAILABLE TO PORTUGAL. HE DESCRIBED THIS FINANCING AS:

- \$85 MILLION OF ANTICIPATORY SWAPS FROM THE US EXCHANGE STABILIZATION FUND (ESF)
- \$75 MILLION OF GOLD COLLATERAL LOANS FROM ESF
- \$100 MILLION NEW CREDITS FROM THE BANK FOR INTERNATIONAL SETTLEMENTS (BIS) GUARANTEED BY FIVE EUROPEAN CENTRAL BANKS
- \$100 MILLION FROM PORTUGUESE GOLD SALES
- \$40 MILLION FROM TWO CENTRAL BANKS WHICH PREFERRED TO REMAIN ANONYMOUS.

WE RESPONDED THAT WE WERE NOT AWARE OF THE REPORT FROM THE BIS MEETING. (COMMENT: THE ABOVE FIGURES ARE NOT CONSISTENT WITH THE \$300 MILLION ESF CREDIT.)

4. REGARDING PROPOSED MEDIUM-TERM CREDIT, DR. WEBER EXPLAINED THAT THE ONLY OFFICIAL CREDITS TO FOREIGN COUNTRIES EXTENDED BY GERMANY HAVE BEEN EITHER SHORT-TERM UNCONDITIONAL CREDIT FROM THE BUNDESBANK
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OR DEVELOPMENT AID. THEY HAVE NOT ENGAGED IN BILATERAL BALANCE OF PAYMENTS FINANCING LARGELY DUE TO THEIR CONCERN ABOUT IMPOSING ECONOMIC CONDITIONS ON A BILATERAL BASIS. THE PROPOSED MEDIUM-TERM CREDIT WOULD SET A PRECEDENT AND OPEN THE DOOR FOR REQUESTS FROM OTHER COUNTRIES FOR SIMILAR TREATMENT. DR. WEBER SAID THAT FINANCE MINISTER APEL, FOR THESE REASONS AND BECAUSE OF HIS GENERAL BUDGETARY PROBLEMS, SPECIFICALLY TOLD HIM THAT HE, APEL, IS NOT WILLING TO PUSH FORWARD TO THE CABINET WITH ANY PROPOSAL OF ASSISTANCE TO PORTUGAL WHICH INVOLVES APPROPRIATED FUNDS OR GUARANTEES.

5. DR. WEBER EMPHASIZED GERMANY'S SUPPORT FOR THE CENTRAL ROLE OF THE IMF IN SETTING THE CONDITIONS

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C O N F I D E N T I A L SECTION 02 OF 02 BONN 02581

LIMDIS-GREENBACK.

FOR ANY BALANCE OF PAYMENTS FINANCING INCLUDING
THE PROPOSED CREDITS TO PORTUGAL, AND EXPRESSED A
SPECIFIC HOPE THAT ANY US CREDITS NOT UNDERCUT THE
IMF. WE ASSURED HIM ON THIS POINT.

6. WEBER ALSO SAID THAT MEDIUM-TERM CREDITS
FROM THE BUNDESBANK WOULD ALSO BE "OUT OF THE QUESTION"
BECAUSE THE BUNDESBANK WOULD NOT AGREE TO IT.

7. REGARDING THE POSSIBILITY OF CREDITS TO PORTUGAL
FROM EUROPEAN COMMUNITY (EC) FACILITIES, DR. WEBER
SAW NO POSSIBILITY OF THIS WITHIN THE PROPOSED TIME
FRAME. PORTUGAL IS NOT A MEMBER AND THUS IS NOT
ELIGIBLE FOR FINANCING FROM THE EC. EVEN IF PORTUGAL
WERE A MEMBER, CURRENT EC FACILITIES ARE FULLY
COMMITTED, HE SAID. DR. WEBER ALSO SAID THAT THE
OECD HAS NO EXISTING FINANCING FACILITIES WHICH
COULD BE USED FOR THIS PURPOSE.

8. DR. WEBER NOTED THAT WHILE GERMANY HAD RATIFIED
THE FINANCIAL SUPPORT FUND, I.E., "THE KISSINGER FUND",
GERMANY HAS NOT PRESSED OTHERS TO DO SO. IN ANY
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EVEN HE DID NOT FEEL THIS FUND WAS APPROPRIATE FOR

THIS PURPOSE BECAUSE PORTUGAL'S QUOTA IS SMALL
(\$120 MILLION) AND THE ECONOMIC CONDITIONALITY
ASSOCIATED WITH THIS SOURCE OF FUNDS WOULD NOT BE
APPROPRIATE FOR PORTUGAL.

9. AFTER EXPLORING THE ALTERNATIVES, DR. WEBER
CONCLUDED THAT THE ONLY WAY FOR GERMANY TO PARTICIPATE
IN THE PROPOSED MEDIUM-TERM CREDIT WOULD BE BY
LEGISLATIVE ACTION. HE SAID, THE POLITICAL DECISION
NEEDED FOR THIS HAS NOT BEEN MADE AND MINISTER APEL
IS NOT PREPARED TO RECOMMEND IT.
STOESSEL

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